

Message Text

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 9876

C O N F I D E N T I A L ISLAMABAD 5346

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, PK

SUBJ: PAKISTAN DEBT

REF: ISLAMABAD 5317

1. WHEN INFORMING CHARGE JULY 2 OF GOP RELUCTANT ACCEPTANCE OF CONSORTIUM'S PROPOSAL ON DEBT (REFTEL), MINSTATE AZIZ AHMED EXPRESSED DISAPPOINTMENT OVER USG'S ROLE (AS PAKS UNDERSTOOD IT) IN CURRENT DEBT NEGOTIATION. AHMED RAISED THE SUBJECT BY COMMENTING THAT PRES BHUTTO MIGHT WISH BRING UP CONSORTIUM DEBT EXERCISE DURING HIS FORTHCOMING VISIT TO US.

2. ACCORDING AHMED, GOP THOUGHT DEBT PROPOSAL PUT FORTH BY IBRD WAS THE BEST AVAILABLE BUT "US OPPOSED IT." USG HAD THEN PRESSED ITS OWN PROPOSAL WHICH WAS LESS ADVANTAGEOUS TO GOP BECAUSE IT EXCLUDED RELIEF ON NON-PROJECT AID. UNLESS NON-PROJECT AID INCLUDED (AS IN IBRD PROPOSAL), THERE WAS ABSOLUTELY NO INCENTIVE TO BDG TO NEGOTIATE ON IT. THIS MEANT THAT GOP WOULD BE EXPECTED TO MAINTAIN PERMANENT RESPONSIBILITY FOR NON-PROJECT ASSISTANCE THAT HAD GONE TO EAST PAKISTAN. GOP HAD ALSO BEEN DISAPPOINTED, AHMED SAID, BY FACT THAT PROVISION TO NAME MEDIATOR BETWEEN GOP AND BDG HAD EVENTUALLY BEEN DROPPED OUT
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OF USG PROPOSAL.

3. AHMED STATED THAT SEVERAL FOREIGN GOVERNMENTS (HE NAMED BRITISH AND JAPANESE SPECIFICALLY) HAD INTIMATED TO GOP THAT IBRD PROPOSAL WAS SHOT DOWN BY USG. HE SAID IT SEEMED DEPLORABLE THAT LEGAL CONSIDERATIONS ALONE RATHER THAN EQUITY HAD GOVERNED CONSORTIUM APPROACH TO PAK DEBT PROBLEM

4. CHARGE SAID HE BELIEVED GOP HAD MISINTERPRETED USG ROLE. EARLIER IBRD PROPOSAL CONTAINED SOME LEGAL PROBLEMS WHICH MADE IT UNACCEPTABLE TO VARIOUS MEMBERS OF CONSORTIUM. IT WAS SIMPLY NOT CORRECT THAT BANK'S PROPOSAL FELL MERELY BECAUSE OF PROBLEMS USG HAD WITH IT. CHARGE SAID HE UNDERSTOOD GOP'S DISAPPOINTMENT OVER CHANGE IN TREATMENT OF NON-PROJECT AID FROM EARLIER IBRD PROPOSAL, BUT SOLUTION FINALLY OFFERED BY BANK ON BEHALF OF CONSORTIUM REPRESENTED BEST MIX THAT COULD BE ACHIEVED AND THAT WAS ACCEPTABLE TO ALL CONSORTIUM MEMBERS. LATEST PROPOSAL REFLECTED MOST SINCERE ATTEMPT TO RECONCILE EQUITY CONSIDERATIONS WITH LEGAL REQUIREMENTS. AS FOR USG, AFTER ALL WE HAD BEEN ENGAGED IN LARGE-SCALE ASSISTANCE PROGRAM FOR PAKISTAN FOR MANY YEARS AND ONE JUST HAD TO ASSUME THAT OUR POSITION ON CURRENT DIFFICULT DEBT ALLOCATION ISSUE WAS CONSISTENT WITH OUR SYMPATHETIC AND POSITIVE APPROACH TO PAKISTAN'S PROBLEMS.

5. AHMED FINALLY SAID THAT GOP WILL TRY TO MITIGATE IN PRACTICE CONDITIONS OF FINAL PROPOSAL WHICH IT CONSIDERS ADVERSE. HE SEEMED TO BE IMPLYING THAT GOP WILL SEEK TO WORK OUT AS BENEFICIAL ARRANGEMENTS AS POSSIBLE IN BILATERAL NEGOTIATIONS WITH CONSORTIUM CREDITORS.

6. WE WISH ALERT DEPARTMENT AND OTHER INTERESTED AGENCIES TO POSSIBILITY THAT PRES BHUTTO MAY RAISE DEBT MATTER IN WASHINGTON.
SOBER

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